

Message Text

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TAGS: PINT, EFIN, EGEN, JA
SUBJECT: YEN RISE CAUSES POLITICAL PRESSURES

SUMMARY: EXTRAORDINARY ECONOMIC CABINET MEETING MARCH 25 DECIDED NOT TO MAKE SPECIAL DEFEND-THE-DOLLAR DEMARCHE TO WASHINGTON JUST NOW BECAUSE DEMARCHE MIGHT LEAD TO AWKWARD COUNTERDEMANDS. CABINET SESSION CAME AMID INCREASING PRESSURES IN POLITICAL CIRCLES FOR FUKUDA TO "STAND UP" TO US. END SUMMARY.

1. DURING CALL MARCH 27, CONSTRUCTION MINISTER YOSHIO SAKURAUCHI TOLD EMBOFF THAT ECONOMIC CABINET HAD DEBATED QUESTION OF WHETHER TO URGE US TO DO MORE TO DEFEND DOLLAR AT HEATED FOUR-HOUR EXTRAORDINARY SESSION MARCH 25. GROUP FINALLY DECIDED NOT TO, SAKURAUCHI SAID, AFTER SEVERAL CABINET MINISTERS, INCLUDING HIMSELF, ARGUED THAT JAPANESE CONCERNS UNDOUBTEDLY WERE BEING ACCURATELY CONVEYED TO WASHINGTON BY AMBASSADOR MANSFIELD, AND THAT DIRECT APPROACH ON THIS PARTICULAR ISSUE WOULD ADD NOTHING. MOREOVER, GROUP FELT THERE WAS GOOD POSSIBILITY THAT JAPANESE APPROACH MIGHT LEAD TO COUNTER DEMANDS BY US FOR JAPAN TO DO MORE.

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2. IN CONVERSATION MARCH 25 MIYAZAWA, DIRGEN OF ECONOMIC PLANNING AGENCY, JUST PRIOR TO CABINET MEETING, TOLD ANOTHER EMBOFF THERE WAS HEAVY PRESSURE ON PRIME MINISTER TO MAKE SOME PUBLIC MOVE TO BRING JAPANESE CONCERNS ABOUT DOLLAR/YEN RELATIONSHIP TO PRESIDENT'S ATTENTION. MIYAZAWA SAID HE WAS ATTEMPTING URGE HIS FRIENDS IN DIET AND CABINET TO CONTAIN SUCH PRESSURES, TO BE PATIENT AND

AWAIT SCHULTZE VISIT APRIL 13-14, IMF INTERIM COMMITTEE MEETINGS AND FUKUDA VISIT TO WASHINGTON. MIYAZAWA APPEARED BELIEVE WASHINGTON UNDERSTOOD SITUATION BUT WAS NOT PREPARED TAKE SPECIFIC ACTIONS CONCERNING DOLLAR/YEN RELATIONSHIP.

3. PRESS REPORTS CABINET ALSO DECIDED SUBJECT SHOULD BE RAISED IN APRIL 10 STRAUSS-USHIBA GENEVA MEETING AS WELL AS WITH SCHULTZE.

4. SAKURAUCHI ALSO DEVOTED SEVERAL MINUTES TO EXPLANATION OF DIFFICULTIES OF STIMULATING DOMESTIC DEMAND IN RECESSION ATMOSPHERE. NOTING THAT HE WAS PERSONALLY RESPONSIBLE FOR SPENDING FULLY 70 PERCENT OF GOVERNMENT'S LARGE PUBLIC WORKS BUDGET, SAKURAUCHI SAID THAT, BECAUSE EXPENDITURES WOULD COME ALL AT ONCE, HE WOULD BE UNABLE TO SPEND ADDITIONAL CONSTRUCTION MONEY EVEN IF IT WERE GIVEN HIM. HE WAS ALREADY RUNNING INTO SHORTAGES OF CERTAIN TYPES OF TECHNICAL CONSTRUCTION PERSONNEL SUCH AS SURVEYORS, ENGINEERS, ETC., AND EVEN, TO SOME EXTENT, SHORTAGES OF CERTAIN TYPES OF LABORERS.

5. SAKURAUCHI SAID THAT BUSINESS, WITH FEW EXCEPTIONS, WAS NOW IN RED, WORRIED ABOUT DEBTS, AND THUS UNLIKELY TO INVEST IN ADDITIONAL PLANT AND EQUIPMENT. SIMILARLY, HE SAID, CONSUMERS, WHO NOW CONTRIBUTE NEARLY HALF OF GNP, CONFIDENTIAL

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WERE MUCH MORE LIKELY TO SAVE THAN SPEND WITH CURRENT UNCERTAIN ECONOMIC PROSPECTS. MOREOVER, GIVEN STRAIGHTENED CIRCUMSTANCES OF BOTH CONSUMERS AND BUSINESS, THERE WERE SHARP LIMITS ON TAX INCOME AND LITTLE MONEY AVAILABLE TO PURCHASE NATIONAL BONDS TO FINANCE BUDGET DEFICIT.

6. ASKED ABOUT THE POLITICAL IMPLICATIONS OF SITUATION, SAKURAUCHI SAID THAT NEXT THREE MONTHS WERE VERY IMPORTANT IN GETTING ECONOMY BACK ON TRACKS. IF YEN RATE COULD BE PUSHED BACK DOWN TO 240, HE WAS REASONABLY CONFIDENT OF SUCCESS: IF NOT, HE SAID JAPAN WOULD FACE A DIFFICULT SITUATION.

7. COMMENT: CABINET SESSION AND SAKURAUCHI'S AND MIYAZAWA'S COMMENTS REFLECT SHARPLY INCREASED CONCERN ABOUT ECONOMY, PROMPTED IN LARGE PART BY LATEST ROUND OF UPWARD PRESSURE ON YEN. THIS HAS ALSO LED TO INCREASING CRITICISM IN POLITICAL CIRCLES OF FUKUDA PERSONALLY FOR "FAILING TO STAND UP" TO US ON THIS AND OTHER ISSUES. MANSFIELD

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